

“And while the 365 days just past were ones of significant achievement for our company, they were also days when we took a number of exciting steps forward in building for our future.”

Commodore Business Machines

Annual Report 1972

5 Year Financial Highlights

(United States Currency)	1972	1971	1970	1969	1968
SALES	\$22,151,844	\$13,494,272	\$9,418,321	\$7,477,426	\$4,139,886
EARNINGS (before extraordinary items)	\$ 1,314,455	\$ (310,901)	\$ 646,412	\$ 467,476	\$ 130,750
EARNINGS PER SHARE (before extraordinary items)	\$1.07	\$(.26)	\$.54	\$.41	\$.12
SHARES OUTSTANDING (average number)	1,229,333	1,215,615	1,197,487	1,146,241	1,094,987
WORKING CAPITAL	\$ 4,341,065	\$ 3,013,625	\$3,379,449	\$2,480,096	\$1,725,175
SHAREHOLDERS' EQUITY	\$ 5,227,359	\$ 3,315,327	\$3,613,362	\$2,785,036	\$1,962,457

To the Shareholders:

June 30, 1972—the close of our best fiscal year ever. Consolidated figures, when compared with similar statistics for our previous years, show that we have reached record heights.

Sales for 1972 totaled \$22,151,844, a 64% increase over 1971. For the first time in our fourteen year history, net income rose above the million dollar mark, to \$1,792,624. And this year, earnings per share were \$1.46, as compared to a \$.27 loss per share for 1971.

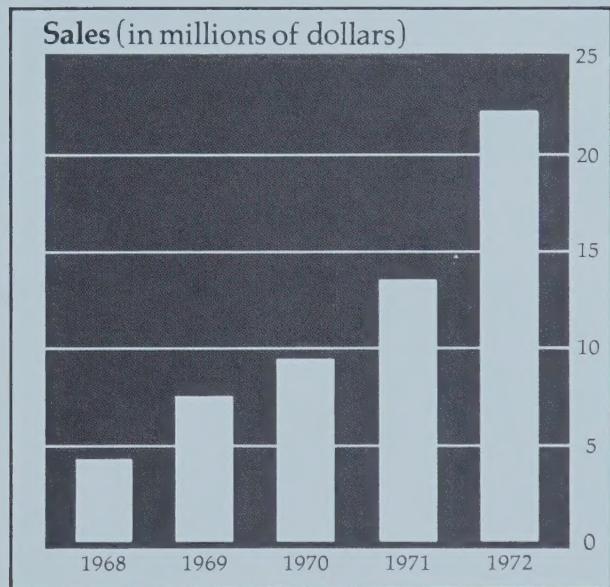
In last year's Annual Report, we spoke of bold new steps that had been taken to further our growth for the future. Steps that necessitated substantial Research and Development and Marketing investments during fiscal 1971. Steps that would make 1972 a year of unparalleled growth and profitability for Commodore.

It has been just such a year. Our pioneering of consumer-oriented calculators has enabled us to reach into vast new markets; thus supplementing our existing distribution networks for business calculators throughout the world. Our investments of time, money, and talent are, we're confident, just beginning to bring us a return. Our position of leadership in the industry has been greatly strengthened.

And while the 365 days just past were ones of significant accomplishment for our company, they were also days when we took a number of exciting steps forward in building for our future, giving Commodore new depth in research and development, production, and marketing.

Technology is the key to our future. And in building for that future, we have assembled teams of top scientists and engineers to keep Commodore moving ahead of the fast-paced technological changes taking place in our industry.

Company designers are now involved in creating a line of MOS/LSI chips for more sophisticated printing calculators for both





“Our technical people outnumber our sales personnel.”

consumer-oriented and scientific applications. The twenty-plus people in our Cupertino facility specifically working on this advanced technology represent over 100 years combined experience in MOS/LSI.

Complementing them is a group of circuit and package engineers, completing machine design for pilot and mass production.

All told, our technical people outnumber our sales personnel. And in our designs for growth we have not restricted them to just the advancements of calculators; we also have the capability of developing related business figuring equipment such as electronic cash registers, invoice accounting systems, mini-computers, and educational aids.

We firmly believe that it was our strong commitment to Research and Development in the past that has brought us to our enviable position in the present.

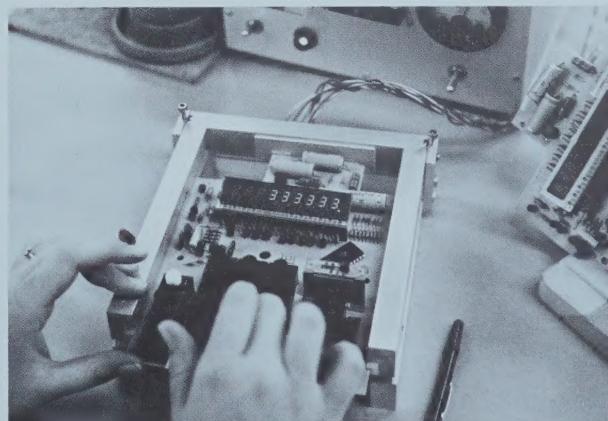
And through this continuing commitment, we believe Commodore will make even greater strides in the future.

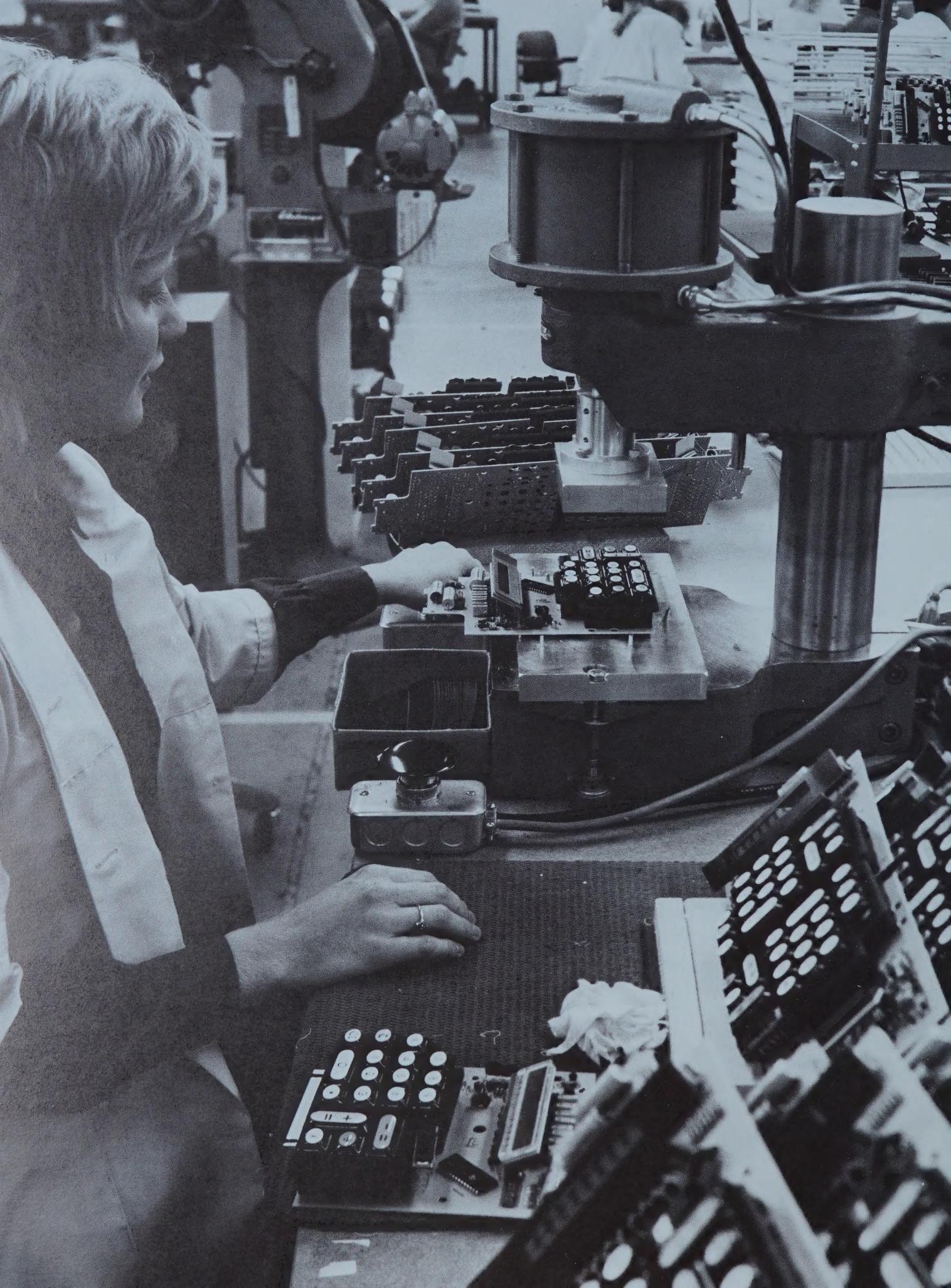
This last year has seen the evolution of a unique manufacturing concept at Commodore; a plan for production that is keyed to tomorrow's demands, rather than locked to yesterday's technology.

Our approach is an effective solution to the problems that have plagued our competitors, and it gives us a strong competitive edge over foreign manufacturers.

In today's market, quarterly model changes have now almost become "the order of the day," if one is to remain competitive. Couple this with the continuing phenomenal growth in the demand for calculators and you are faced with real production headaches.

Commodore's cure is to buy the assembly time of major





“A plan for production that is keyed to tomorrow's demands, rather than locked to yesterday's technology.”

companies. We use their expertise, working at all times with the knowledge of exact manufacturing costs; avoiding the uncertainties and capital and labor investments necessary to produce large volume output.

Thus, we have achieved great flexibility in production response to the demands and changes of our business. We are free to move to our markets, free to initiate new technology—with the inflexibilities and constraints of manufacturing overheads.

We are presently working with a number of major firms under this program. It's enabled our company to become a flexible manufacturing competitor, and we expect it to make us even more so in the days ahead.

This past year has been a "low-key" one for our marketing forces, because Commodore has been faced with the bittersweet problem of market demand for our products far exceeding our ability to deliver those products.

In 1971, Commodore began the move to bring competitive basis calculator manufacturing back across the ocean to North America. However, our confidence in the opportunities to stir a "rebirth" of North American production was not entirely shared by various component suppliers to our industry. Thus, there has been a tremendous shortage of certain components. And this, of course, has restricted our efforts.

Thinking in terms of our future, we chose therefore, to not promise what we could not deliver. Even so, Commodore's sales this year, as stated earlier in this Report, were at a new record high.

This past year has also seen the demise of a number of traditional





commodore

Equipment through
ent and imagination

commodore
The calculator b

“We are not strangers to the techniques of marketing in this industry.”

brand names in our industry. Foreign manufacturers are losing ground, and the void (forced in part by our “Made in America” efforts) is being filled by companies such as ours.

Our market leadership, begun with the early 1971 introduction of our C-108 Personal Calculators, has been maintained.

And that leadership is the result of our understanding of the needs of this market. We are not strangers to the techniques of marketing in this industry. For over 14 years, Commodore has refined its abilities to determine the desires of our audiences. We have, for years, been successfully selling through department stores, chain stores, and mail order operations. And this experience has led to our product line distribution through multi-channels and multi-markets, and has made possible our continuing success.

During 1972 we brought to the market our Minuteman I, our US-8, our C110, and our C112—all have been well received. And in the last quarter we made first deliveries of our new sophisticated US-14 calculators.

With the backings of our technology efforts, supported by our new flexibility in production, the future bodes well for Commodore's continuing success as a marketer that knows what to sell, when to sell, and how to sell.

In 1972, our company continued to strengthen its worldwide capabilities.

Japan. Commodore's Far East activities represent an important extension of our North American activities. We are successfully selling Commodore products to the Japanese consumer, and at the same time, our Japanese company is purchasing essential components and products for our manufacture of goods worldwide.





COSMOPOLITAN
World

**“Our efforts on distant shores
are an ever increasingly important part of our
total Corporate growth program.”**

United Kingdom. We are now assembling calculators in Newcastle for both the British and the Common Market (which Britain will enter in January 1973). This economic marketplace shows great potential for our company. And because of this, we have expanded both our administrative sales and service facilities in anticipation of increased sales activity.

Seeking the position of leadership worldwide, we are continually adding to our sales distribution in both international and government-sponsored trade shows and expositions in Europe, the Middle East, Japan, and South and Central America.

Our efforts on distant shores are an ever-increasingly important part of our total Corporate growth pattern, and promise much in the days before us.

As mentioned earlier in the Marketing Section of this Annual Report, our company introduced a number of new products during the year just past, but what is more exciting is to speak of the products to be introduced in the months ahead.

The market is eager for newer, better, faster, less-expensive products, and we are working to fill that need.

During the First Quarter of our fiscal year 1973 (July—Sept 72), we introduced the US-3 and US-4; the first mini-desk and hand-held personal calculators with independent memory systems retailing for less than \$150. Additionally, we broke the magic \$100 retail price with our new Minuteman II. The response to all three models has been tremendous.

In our Second Quarter (Oct—Dec 72) we will introduce the US-12, a 12-digit memory office calculator with percentage key and dual decimal system. Our M-16 will also go on the market. This low-priced, consumer-oriented desk model has an eight digit readout, 16-column capacity in multiplication and division, independent





“The market is eager for newer, better, faster, less-expensive products, and we are working to fill that need.”

memory system, and a simplified keyboard. We are also releasing our new Model 142P electronic printer. This is a two memory, 14-digit, sophisticated business-oriented device.

In the Third Quarter (Jan—Mar 73) three additional Printers including a low-cost four function model will be brought to market. Furthermore a uniquely designed, revolutionary-priced home operation unit—the Commodore C-8, eight-digit, four function display calculator; and our new E12 full feature desktop calculator, incorporating 12 digit capacity and independent memory system are scheduled for January 1973 release.

And in our final quarter next year (Apr—June 73) Commodore will unveil an exciting array of new models at the various international trade shows.

1972 saw continuing change in our Company, seeking to further growth and development for the times before us.

CBM Sales, Inc., a domestic international sales corporation (“DISC”), was founded to take advantage of recently enacted U.S. tax legislation regarding exports of U.S. manufactured products. This is particularly beneficial to our company because of the increasing number of machines we are building in North America and shipping to other parts of the world.

Our steel office furniture division in Toronto has been further expanded, both in products, and in capacity. Sales have increased considerably and we anticipate a continuation. We are now studying the feasibility of moving into the U.S. market, including possible assembly points for our desk and file series in the Mid-West and on the West Coast.

Time Research and Development Corporation, a joint venture



“We are confident that 1973 will be even more gratifying.”

in the mechanical engineering area, has been dissolved.

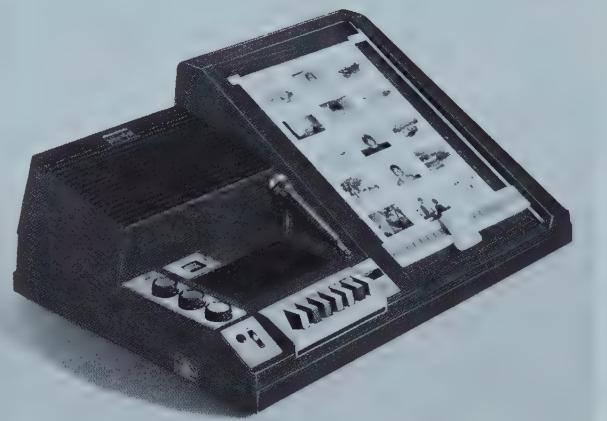
And one of the most exciting developments this past year has been the formation of Commodore Educational Systems Limited. This firm will produce and market a unique table-model teaching machine using audio, visual, and self-testing aids. Initially, the machine will be available in Japan, with the first two accompanying courses being English and International Cooking. In the months ahead, Commodore Educational Systems will move into worldwide marketing, with virtually no limitations on the subjects available for its specially-developed courses. We believe this venture is a logical extension of our technological and marketing capabilities and expect much from it.

In summary, the year 1972 has been one of exciting accomplishment for Commodore; thanks to the efforts, support, and encouragement of our employees, our suppliers, our customers, and our many worldwide business associates.

On behalf of my fellow directors, I offer my sincere appreciation for your continuing confidence in Commodore.

We are confident that the year 1973 will be even more gratifying than the past twelve months have been.

Jack Tramiel
Jack Tramiel
President
October 31, 1972



Commodore Business Machines
(Canada) Limited and Subsidiaries
1972 Financial Statement

Commodore Business Machines (Canada) Limited and Subsidiaries Consolidated Balance Sheets

(Expressed in United States Currency)

	June 30,	
	<u>1972</u>	<u>1971</u>
ASSETS		
Current Assets:		
Cash	\$ 331,261	\$1,119,568
Short-term deposits and marketable securities, at cost	2,105,987	465,375
Accounts receivable, less allowance of \$431,700 in 1972 and \$365,500 in 1971 for doubtful accounts	2,679,801	3,839,582
Income taxes recoverable (Note 2)	74,000	181,000
Inventories, at the lower of cost (first-in, first-out) or market — Finished goods	613,803	2,211,603
Raw materials and work-in-process	1,128,378	63,699
Prepaid expenses	156,364	129,879
Total current assets	<u>\$7,089,594</u>	<u>\$8,010,706</u>
Plant and Equipment, at cost	\$ 791,799	\$ 493,295
Less — Accumulated depreciation and amortization	409,857	283,084
	<u>\$ 381,942</u>	<u>\$ 210,211</u>
Other Assets:		
Investments (Note 3) —		
In affiliated company	\$ 50,000	\$ 50,000
In a supplier	54,700	—
Unrecovered development and preoperating costs of a subsidiary (Note 4)	300,309	41,490
Research and development costs (Note 5)	149,342	—
Patents, trademarks and other manufacturing rights	1	1
	<u>\$ 504,352</u>	<u>\$ 91,491</u>
	<u>\$7,975,888</u>	<u>\$8,312,408</u>

Approved on behalf of the Board;
Irving Gould, Director
Jack Tramiel, Director

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

LIABILITIES	June 30,	
	<u>1972</u>	<u>1971</u>
Current Liabilities:		
Advances from finance company	\$ 14	\$1,835,994
7% notes payable (Note 4)	500,000	—
Accounts payable and accrued liabilities	2,000,953	3,161,087
Income taxes payable	247,576	—
Total current liabilities	\$2,748,529	\$4,997,081
Commitments (Notes 6 and 7)		
Shareholders' Equity:		
Capital stock —		
Preference — Authorized 100,000 redeemable, 6% cumulative shares of \$10 par value; none issued	\$ —	\$ —
Common — Authorized 3,000,000 shares of no par value; issued 1,242,152 in 1972 and 1,220,386 in 1971 (Note 8)	1,904,391	1,784,983
Retained earnings	3,096,188	1,303,564
Contributed surplus	226,780	226,780
	\$5,227,359	\$3,315,327
	\$7,975,888	\$8,312,408

Commodore Business Machines (Canada) Limited and Subsidiaries Consolidated Statements of Operations and Shareholders' Equity

(Expressed in United States Currency)

	Year Ended June 30,	
	1972	1971
Operations		
Net Sales	\$22,151,844	\$18,494,272
Cost of Sales	17,519,976	10,551,378
Gross profit	\$ 4,631,868	\$ 2,942,894
Operating Expenses:		
Selling	\$ 1,718,059	\$ 2,033,373
General and administrative	946,958	844,382
Financial, net of interest income of \$91,300 in 1972	(38,604)	389,540
	\$ 2,626,413	\$ 3,267,295
Income (loss) from operations	\$ 2,005,455	\$ (324,401)
Provision (Credit) for Income Taxes (Note 2)	691,000	(13,500)
Income (loss) before extraordinary items	\$ 1,314,455	\$ (310,901)
Extraordinary Items:		
Reduction of income taxes resulting from carryforward of prior years' losses (Note 2)	\$ 431,000	\$ 1,300
Gain resulting from currency revaluations	47,169	35,836
Write-down of investment in affiliated company	—	(51,869)
	\$ 478,169	\$ (16,033)
Net income (loss)	\$ 1,792,624	\$ (326,934)
Earnings Per Share (Note 9):		
Income (loss) before extraordinary items	\$ 1.07	\$ (.26)
Extraordinary items	.39	(.01)
Net income (loss)	\$ 1.46	\$ (.27)
Earnings Per Share—assuming full dilution (Note 9):		
Income before extraordinary items	\$.84	
Extraordinary items	.32	
Net income	\$ 1.16	

Shareholders' Equity	Common Stock	Retained Earnings	Contributed Surplus	Total
	Shares	Amount		
Balance, June 30, 1970	1,215,076	\$1,756,084	\$1,630,498	\$226,780 \$3,613,362
Net loss for the year	—	—	(826,934)	— (326,934)
Sale of common stock upon exercise of options and warrants	5,310	28,899	—	28,899
Balance, June 30, 1971	1,220,386	\$1,784,983	\$1,303,564	\$226,780 \$3,315,327
Net income for the year	—	—	1,792,624	— 1,792,624
Sale of common stock upon exercise of options and warrants	21,766	119,408	—	119,408
Balance, June 30, 1972	1,242,152	\$1,904,391	\$3,096,188	\$226,780 \$5,227,359

The accompanying notes to consolidated financial statements are an integral part of these statements.

Commodore Business Machines (Canada) Limited and Subsidiaries Consolidated Statements of Changes in Financial Position

(Expressed in United States Currency)

	Year ended June 30,	
	1972	1971
Changes in Financial Position		
Funds Were Provided By (used for):		
Operations, exclusive of extraordinary items —		
Income (loss) before extraordinary items	\$1,314,455	\$ (310,901)
Depreciation and amortization (substantially straight-line), not requiring outlay of working capital in the current period	126,773	78,730
Total provided by (used for) operations	<u>\$1,441,228</u>	<u>\$ (232,171)</u>
Extraordinary items	478,169	(16,033)
Sale of common stock	<u>\$1,919,397</u>	<u>\$ (248,204)</u>
Dissolution of investment in affiliated company	119,408	28,899
	61,755	—
	<u>\$2,100,560</u>	<u>\$ (219,305)</u>
Funds Were Applied To:		
Investment in affiliated company	\$ 11,755	\$ 40,575
Purchase of plant and equipment	298,504	64,454
Expenditures for —		
Unrecovered development and preoperating costs of a subsidiary	258,819	41,490
Research and development costs	149,342	—
Investment in a supplier	54,700	—
	<u>\$ 773,120</u>	<u>\$ 146,519</u>
Increase (decrease) in working capital	<u>\$1,327,440</u>	<u>\$ (365,824)</u>
Changes in Components of Working Capital:		
Increase (decrease) in current assets —		
Cash	\$ (788,307)	\$1,088,279
Short-term deposits and marketable securities	1,640,612	(103,092)
Accounts receivable	(1,159,781)	(11,027)
Income taxes recoverable	(107,000)	21,000
Inventories	(533,121)	(925,768)
Prepaid expenses	26,485	42,653
(Increase) decrease in current liabilities —		
Advances from finance company	1,835,994	(1,069,272)
7% notes payable	(500,000)	—
Accounts payable and accrued liabilities	1,160,134	577,903
Income taxes payable	(247,576)	13,500
Increase (decrease) in working capital	<u>\$1,327,440</u>	<u>\$ (365,824)</u>

The accompanying notes to consolidated financial statements are an integral part of these statements.

Commodore Business Machines (Canada) Limited and Subsidiaries

Notes to Consolidated Financial Statements

June 30, 1972

1. Principles of Consolidation

The consolidated financial statements include the accounts of the Company and all subsidiaries after elimination of intercompany accounts and transactions. All such subsidiaries were wholly-owned as of June 30, 1972, except for one subsidiary in which the Company holds an interest of 70 percent. The minority shareholders' equity is not material.

The consolidated financial statements are expressed in United States currency. Current assets and current liabilities have been translated, where necessary, at year-end rates of exchange, and all other assets and liabilities have been translated at historical rates. Income, costs and expenses were translated at average rates prevailing during the year.

2. Income Taxes

In prior years, Commodore Business Machines, Inc., a United States subsidiary, filed claims for refund of income taxes paid for fiscal years 1962 to 1964. These claims arose from the carry-back of losses incurred during fiscal years 1965 to 1967. The Internal Revenue Service and other taxing authorities reviewed the claims and proposed disallowances which the Company contested. During fiscal 1972, settlements were reached, and refunds of \$155,210 plus interest were received; additional refunds of \$74,000 (net of certain expenses) plus interest are due as of June 30, 1972, under the settlements. The interest received of \$48,250 and the increase of \$59,210 in income taxes recoverable resulting from this settlement are included in the accompanying statement of operations for 1972.

Commodore Business Machines, Inc., has an operating loss carryforward of approximately \$400,000 which may be used to offset income otherwise taxable in future years. This carryforward expires in 1976.

The variation from the customary relationship between provision for income taxes and income before income taxes for the year ended June 30, 1972, results primarily from a portion of consolidated income from operations being contributed by a subsidiary incorporated in a jurisdiction which does not levy income taxes.

3. Investments

In 1972, a subsidiary of the Company purchased 27,350 shares of the capital stock of Standard Microsystems Corporation, one of the subsidiary's suppliers, for \$54,700. The related capital shares are restricted from sale until February 1974. The Company is of the opinion it will realize at least its cost of this investment.

During 1972, the Company's 50% owned affiliate, Time Research and Development Corp. was dissolved. As a result of the settlement of related intercompany advances and investments, and in conjunction with the dissolution the Company's subsidiary, Commodore Business Machines, Inc., received certain product development projects from the affiliate. These projects were valued at \$61,755, the amount of the Company's investment in the affiliate at the date of dissolution, and are included in research and development costs in the accompanying consolidated balance sheet.

4. Commodore Educational Systems Limited

The Company has formed a Bahamian subsidiary, Commodore Educational Systems Limited, to develop, promote and market, initially in Japan, a table-model language laboratory and teaching machine, together with courses for use in conjunction with this machine. Unrecovered development and preoperating costs incurred were \$300,309 at June 30, 1972, and \$41,490 at June 30, 1971. The subsidiary is in the development stage and these costs have been deferred. When sales begin (estimated to be January 1973) the subsidiary will start amortizing these costs based upon an initial number of expected sales over a period estimated to be no more than three years.

Commodore Educational Systems Limited has issued \$500,000 of unsecured 7% notes payable due May 31, 1973, including \$400,000 issued to a Bahamian corporation owned by the Chairman of the Company's Board of Directors.

The subsidiary is in process of making a public offering of 180,000 shares of its capital stock; after this offering, the Company would retain a 62% equity. The subsidiary intends to use a portion of the net proceeds, if the public offering is successful, to liquidate the 7% notes payable.

5. Research and Development Costs

As of June 30, 1972, a subsidiary has incurred costs of \$87,587 on development of new products during the year. In addition, another subsidiary acquired project developments of \$61,755 in conjunction with the dissolution of an affiliate (Note 3). The Company has deferred these costs (total of \$149,342) and intends to amortize them based upon an initial number of expected sales over a period estimated not to exceed three years.

6. Commodore Systems, Inc.

In April 1972, Commodore Business Machines, Inc. entered into various agreements with Varadyne Industries, Inc., Bank of America, and others concerning Varadyne's calculator operation being conducted by its then subsidiary, Varadyne Systems, Inc. At that time, all of the subsidiary's common stock was acquired by its President for \$10,000. The name of this company was later changed to Commodore Systems, Inc. The arrangements provided among other things, that (a) Commodore would have an option to acquire Systems within two years at nominal cost, (b) Commodore Business Machines (Canada) Limited and subsidiaries would guaranty a bank line of credit for Systems for up to \$1,000,000, (c) Commodore would purchase 100,000 calculators from Systems over a one-year period, and (d) Commodore would have exclusive sales rights to Systems' products and would manage Systems' operations.

As of June 30, 1972, the Companies' contingent obligation under Systems' line of credit, which is secured by Systems' assets (and is additionally secured by certain of Commodore's receivables and inventories), was approximately \$430,000. Systems has been unable to produce calculators successfully and deliver them in accordance with Commodore's purchase order. As a result, the purchase order has been cancelled, and as of October 31, 1972, Systems will cease to operate, at which time the Company's obligation under the line of credit is estimated to be approximately \$800,000. Termination and settlement of the arrangements are in process. The Company intends to purchase Systems' assets to enable Systems to satisfy its obligation to the bank under the line of credit and management believes that the Company will not sustain any material loss upon the final settlement.

7. Commitments

At June 30, 1972, virtually all of the premises utilized by the Company and its subsidiaries were occupied under long-term leases which expire at various dates to April, 1984. Aggregate rental commitments remaining under these lease contracts were approximately \$1,233,000 at June 30, 1972, including approximately \$165,000 within one year.

As of June 30, 1972, the Company has purchase commitments of up to \$17,800,000, which are cancellable under certain conditions, for future assembly and delivery of calculators and component parts.

8. Share Purchase Warrants and Stock Options

The following common shares have been reserved:

(a) For the exercise of share purchase warrants which entitle the holders thereof to purchase fully-paid, non-assessable common shares at the exercise price on or before the date at which the warrants become void.

Series	Void After	Warrants Issued	Exercise Price (\$Can.)	Outstanding
"A"	November 1, 1974	200,000	\$4.50	195,875
"B"	May 1, 1975	120,000	\$5.50	54,000
"C"	April 1, 1976	120,000	\$5.50	95,000
				344,875
(b) For options granted to employees to purchase fully-paid and non-assessable common shares at prices ranging from \$3.25 to \$9.00 per share (in Canadian currency)				57,834
Total shares reserved				402,709

9. Earnings Per Share

Earnings per share data have been calculated in accordance with practices prevailing for Canadian companies.

The average number of shares used in calculating earnings per share were as follows:

	1972	1971
Weighted average common shares outstanding during the years	1,229,333	1,215,615
Effect of assumed exercise of stock options and warrants	413,528	
Total common shares—assuming full dilution	1,642,861	

Primary earnings per share are based upon the weighted average number of shares outstanding during each year. Fully diluted earnings per share have been calculated by assuming that the proceeds from the exercise of the stock options and warrants have been applied first to reflect a reduction in the borrowing costs incurred by the Company, then to the purchase of short-term marketable securities at a yield of 4 $\frac{1}{8}$ percent per annum. This results in an increase of approximately \$111,000 in net income for the year for purposes of this calculation.

In 1971, the effect of including stock options and warrants in the computation of fully-diluted earnings per common share would be anti-dilutive.

10. Remuneration of Directors and Senior Officers

Aggregate direct remuneration paid or payable by the Company and its subsidiaries for the year to directors and senior officers of the parent company was approximately \$159,000.

Auditors' Report

TO THE SHAREHOLDERS OF COMMODORE BUSINESS MACHINES (CANADA) LIMITED:

We have examined the consolidated balance sheets of COMMODORE BUSINESS MACHINES (CANADA) LIMITED (an Ontario corporation) and subsidiaries as of June 30, 1972 and 1971, and the related consolidated statements of operations, shareholders' equity, and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Commodore Business Machines (Canada) Limited and subsidiaries as of June 30, 1972 and 1971, and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles consistently applied during the periods.

San Jose, California ARTHUR ANDERSEN & CO.
October 31, 1972

Board of Directors

Irving Gould
Coral Harbour, N.P., Bahamas
Jack Tramiel
Watsonville, Calif.
Thomas McGourty
Aptos, Calif.
David M. Perlmutter, C.A.
Toronto, Ontario
Henry B. Sussman
Toronto, Ontario

Officers

Irving Gould
Chairman of the Board
Jack Tramiel
President
Thomas McGourty
Vice-President, Manufacturing
Robert S. Weiss, C.A.
Secretary-Treasurer
Frederick S. Draper
Assistant Secretary

Transfer Agent and Registrar

Canada Permanent Trust Company,
Toronto, Montreal

Auditors

Arthur Andersen & Co.,
San Jose, California

Counsel

Davies, Ward & Beck,
Toronto, Ontario

Shares Listed

Canadian Stock Exchange,
Montreal

Head Office

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Ontario

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3-14 Hiroo 1-Chome
Shibuya-ku, Tokyo, Japan

Commodore Educational Systems
Limited
P. O. Box N8312, Bolam House
Nassau, Bahamas
Taiso Shinjuku Building
4-44 Shinjuku-ku
Tokyo 160, Japan



Commodore Business Machines (Canada) Limited

Board of Directors

Irving Gould, Nassau, Bahamas
Jack Tramiel, Watsonville, Calif.
Thomas McGourty, Aptos, Calif.
David M. Perlmutter, C.A., Toronto, Ontario
Henry B. Sussman, Toronto, Ontario

Officers

Irving Gould, Chairman of the Board
Jack Tramiel, President
Thomas McGourty, Vice-President, Manufacturing
Robert S. Weiss, C.A., Secretary-Treasurer
Frederick S. Draper, Assistant Secretary
Melville E. Gould, Vice-President, European Operations

Head Office

946 Warden Avenue, Scarborough, Ontario

Other Offices

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Park Ridge, Illinois 60068

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Nassau, Bahamas

CBM Business Machines Limited,

Princes House, Ste. 209
190 Picadilly,
London W.1, England

Commodore Buromaschinen GmbH

3000 Hannover 17
Am Schafbrinck 62c
West Germany

Commodore Japan Limited

Ste. 706, Hayama Bldg.
3-14 Hiroo 1 - Chome,
Shibuya-ku, Tokyo, Japan

Transfer Agent and Registrar Canada Permanent Trust Company,
Toronto, Montreal

Counsel Davies, Ward & Beck, Toronto, Ontario

Shares Listed Canadian Stock Exchange, Montreal

AR46

Commodore
Business Machines
(Canada) Limited

**Report to the
Shareholders**

for the
six months ended
December 31, 1971



commodore

C10163
Printed in U.S.A.



commodore

To The Shareholders:

The six months ended December 31, 1971 have proven to be a period of significant development for the Company. During this period we have achieved not only record sales for a six month period, but earnings which surpass any which the Company has attained for any previous complete year in its history. And for the first time, net income after extraordinary items surpassed the \$1,000,000 mark.

Financial Highlights

During the first half of fiscal 1972, consolidated net sales were \$10,937,900, an increase of 118% over the comparable 1971 period. Earnings figures are as follows:

	Basic	Fully Diluted
Net income before extraordinary credit	\$ 770,323	\$ 812,395
Net income after extraordinary credit	\$1,075,223	\$1,117,295
Earnings per share before extraordinary credit	\$.63	\$.50
Earnings per share after extraordinary credit	\$.88	\$.68
Average number of shares outstanding	1,223,352	1,640,767

The figures for fully diluted earnings are based upon the exercise of all outstanding warrants and options, which would provide the Company with over \$2,000,000.00 additional capital. These proceeds have been applied to reflect a reduction in the borrowing costs incurred by the Company, with the excess realized through conversion applied to the purchase of government securities at a yield of 4.42% per annum. Outstanding warrants include 195,875 "A" warrants, exercisable at Cdn. \$4.50, which expire on November 1, 1974, and 162,400 "B" and "C" warrants at Cdn. \$5.50, which expire on or before April 1, 1976.

A review of our financial status at December 31, 1971 reveals some other satisfying signs of our progress. The Company's cash flow has shown a marked improvement, with an increase in working capital of over \$1,000,000 since June 30. Our trade receivables have been reduced to less than 40 days sales outstanding from a figure of 71 days at June 30. And our dramatic increase in sales was achieved with only a minimal increase in operating expenses from the comparable six month period last year, and a reduction from the expenses of the six months ended June 30.

New Products

In the coming months, the Company plans to continue its program of introducing new products at trade fairs throughout the world. Once again, at the world-famous Hannover Fair, where the C-108 received such an enthusiastic response in 1971, Commodore will introduce not just one model, but a complete new range of calculators. We are confident that the response to these machines will be equally satisfying and that the progress of the first half of our fiscal year will continue.

For the part that our entire staff, our customers and our suppliers are playing in this continuing success, I join my fellow directors in expressing our sincere appreciation.

Jack Tramiel
President
February 22, 1972

COMMODORE BUSINESS MACHINES (CANADA) LIMITED AND ITS WHOLLY-OWNED SUBSIDIARIES

Consolidated Statement of Income

FOR THE SIX MONTHS ENDED
DECEMBER 31, 1971

(Expressed in United States currency with comparative figures for the prior period)

UNAUDITED	Dec. 31, 1971	Dec. 31, 1970
NET SALES	\$10,937,900	\$5,013,411
GROSS PROFIT	\$ 2,551,231	\$1,169,332
OPERATING EXPENSES ...	1,314,108	1,302,476
NET INCOME (LOSS) BEFORE PROVISION FOR TAXES	\$ 1,237,123	\$ (133,144)
PROVISION FOR TAXES ...	466,800	—
NET INCOME (LOSS) BEFORE EXTRAORDINARY CREDIT	\$ 770,323	\$ (133,144)
EXTRAORDINARY CREDIT ARISING FROM THE CARRY-FORWARD OF PRIOR YEARS' TAX LOSSES	304,900	—
NET INCOME (LOSS) FOR THE PERIOD	\$ 1,075,223	\$ (133,144)
EARNINGS PER SHARE BEFORE EXTRAORDINARY CREDIT		
Basic.....	\$.63	\$ (.11)
Fully Diluted.....	\$.50	
EARNINGS PER SHARE AFTER EXTRAORDINARY CREDIT		
Basic.....	\$.88	\$ (.11)
Fully Diluted.....	\$.68	

Subject to year-end audit adjustments

COMMODORE BUSINESS MACHINES (CANADA) LIMITED AND ITS WHOLLY-OWNED SUBSIDIARIES

Consolidated Statement of Source and Application of Funds

FOR THE SIX MONTHS ENDED
DECEMBER 31, 1971

(Expressed in United States currency with comparative figures for the prior period)

UNAUDITED	1971	1970
WORKING CAPITAL, BEGINNING OF PERIOD...	\$3,013,625	\$3,379,449
SOURCE OF FUNDS:		
FROM OPERATIONS —		
NET INCOME		
FOR THE PERIOD	\$1,075,223	\$ —
ADD: DEPRECIATION & AMORTIZATION	32,729	—
	\$1,107,952	\$ —
SALE OF COMMON STOCK FOR CASH PURSUANT TO OPTIONS & WARRANTS...	42,647	—
	\$1,150,599	\$ —
APPLICATION OF FUNDS:		
TO OPERATIONS —		
NET LOSS FOR THE PERIOD \$ —		\$ 133,144
LESS: DEPRECIATION & AMORTIZATION		(25,916)
ADVANCES TO AFFILIATED COMPANY ...	\$ —	\$ 107,228
PURCHASES OF FIXED ASSETS	51,379	47,554
DEVELOPMENT COSTS OF NEW DIVISION	85,856	—
	\$ 137,235	\$ 185,257
INCREASE (DECREASE) IN WORKING CAPITAL ...	\$1,013,364	\$ (185,257)
WORKING CAPITAL, END OF PERIOD	\$4,026,989	\$3,194,192

Subject to year-end audit adjustments